

Message Text

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SIL-01 L-03 H-02 PA-02 PRS-01 /112 W
-----115856 301745Z /43

R 301651Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1036
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 05 BONN 14213

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS WEEK ENDING AUGUST 29

REF: BONN 13364, BONN 13758

1. NEW ECONOMIC STIMULUS:
CHANCELLOR SCHMIDT RETURNS TO BONN THIS WEEK AND
COALITION CONSULTATIONS CONCERNING NEW STIMULATIVE
MEASURES ARE BEGINNING. THE GOVERNMENT SO FAR IS
REMAINING VERY CLOSE-MOUTHED CONCERNING ITS PLANS,
PENDING A FIRST CABINET DISCUSSION ON WEDNESDAY AND
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SUBSEQUENT DELIBERATIONS WITHIN THE SPD AND FDP BUNDES-
TAG FRACTIONS. THE CABINET IS SCHEDULED TO AGREE ON
A PROGRAM DURING ITS SEPTEMBER 14 SESSION WHICH WILL
THEN BE PRESENTED THE FOLLOWING DAY TO THE BUNDESTAG
BY THE CHANCELLOR.

DURING THE PRESENT PUBLIC DISCUSSION SPD POLITICIANS

EMPHASIZE THE DESIRABILITY OF INCREASING PUBLIC EXPENDITURES AND ARE DOWN-PLAYING INVESTMENT INCENTIVES OR TAX REDUCTIONS (EXCEPT POSSIBLY FOR LOW INCOME GROUPS). LEFT-WING SPOKESMEN ARE INDICATING INCREASING OPPOSITION TO AN ACROSS-THE-BOARD TEMPORARY TAX CUT UNDER THE STABILITY AND GROWTH LAW. CDU POLITICIANS, ON THE OTHER HAND, ARE INCREASINGLY COMING OUT FOR A TEMPORARY ACROSS-THE-BOARD TAX CUT WHICH IS TO BE LATER FOLDED INTO A PERMENENT TAX REDUCTION. EVERYONE SEEMS TO FAVOR A DOUBLING OR TRIPLING OF THE "CHRISTMAS DEDUCTION" FROM TAXABLE INCOME WHICH CURRENTLY AMOUNTS TO DM 100. FRAU SCHLEI, THE MINISTER FOR ECONOMIC COOPERATION AND DEVELOPMENT CONTINUES TO PUSH FOR A LARGE-SCALE INCREASE IN FOREIGN AID EXPENDITURES.

THE GOVERNMENT WILL HAVE TO DECIDE WHETHER TO SETTLE ESSENTIALLY FOR AN INCREASE IN GOVERNMENT EXPENDITURES (GOING ONLY RELATIVELY MODERATELY BEYOND THE 9 PERCENT ALREADY PLANNED FOR 1978) AND A LARGER "CHRISTMAS DEDUCTION" OR INCUR THE RISK OF ANOTHER BITTER FIGHT WITH THE LEFT WINGS OF BOTH GOVERNMENT PARTIES IF IT WANTS TO PUSH THROUGH EITHER ADDITIONAL INVESTMENT INCENTIVES OR AN ACROSS-THE-BOARD TEMPORARY INCOME TAX CUT (SEE BONN 13364).

2. BERLIN ECONOMIC RESEARCH INSTITUTE (DIW)
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NOTES MARKED SLOW-DOWN OF ECONOMIC GROWTH
-- URGES STIMULATIVE MEASURES:
THE GERMAN INSTITUTE FOR ECONOMIC RESEARCH IN BERLIN (DIW) HAS PUBLISHED ITS ESTIMATES OF THE DEVELOPMENT OF FRG GNP DURING THE FIRST AND SECOND QUARTER OF 1977. DIW'S REGULARLY PUBLISHED SEASONALLY-AND WORKDAY-ADJUSTED SERIES PLACED QUARTER TO QUARTER REAL GNP GROWTH AT 1.0 PERCENT FOR THE FIRST QUARTER AND 0.5 PERCENT FOR THE SECOND, FOLLOWING RATES OF 0.5 PERCENT EACH FOR THE THIRD AND FOURTH QUARTER LAST YEAR. THE INSTITUTE EMPHASIZED THAT, BY THE SECOND QUARTER, ACCELERATING EXPORTS HAD BECOME THE ONLY EXPANSIONARY ELEMENT. DIW CALCULATIONS EXCLUDING CORRECTIONS FOR WORKDAY VARIATIONS (WHICH COME CLOSER TO THE AS YET UNAVAILABLE, BUT MORE WIDELY USED BUNDESBANK CALCULATIONS) PORTRAY AN EVEN MORE DISAPPOINTING

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R 301651Z AUG 77
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INFO AMEMBASSY BERN
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PICTURE -- AN 0.5 PERCENT SEASONALLY-ADJUSTED REAL GAIN
DURING THE FIRST QUARTER OVER THE FOURTH QUARTER 1976,
FOLLOWED BY AN 0.5 PERCENT DECLINE FROM THE FIRST QUARTER
TO THE SECOND QUARTER OF 1977. IN INTERPRETING ITS
ESTIMATES, DIW CONCLUDED THAT THE UPSWING, WHICH BEGAN
IN SUMMER 1975, HAS COME TO A STANDSTILL DURING THE
SECOND QUARTER. DIW ASSERTS THAT PROSPECTS FOR
REACCELERATION IN COMING MONTHS ARE DIM, AND CHARGES
THAT A TRANSITION TO SELF-SUSTAINING EXPANSION WHICH
SEEMED LIKELY LAST WINTER WAS ABORTED BY ADHERENCE
TO AN ESSENTIALLY RESTRICTIVE COURSE BY THE PUBLIC
SECTOR. AGAINST THIS BACKGROUND, DIW STRONGLY
URGES ADDITIONAL STIMULATIVE MEASURES. WARNING AGAINST
EXCLUSIVE RELIANCE ON THE DM 16 BILLION PUBLIC INVEST-
MENT PROGRAM AND ARGUING THAT TEMPORARY TAX CUTS WOULD
PROBABLY HAVE ONLY A MARGINAL IMPACT ON AGGREGATE DEMAND,
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THE INSTITUTE ADVISED THAT STIMULATION SHOULD CONCENTRATE
ON MORE RAPID EXPANSION OF PUBLIC SECTOR EXPENDITURES,
WITH ADDITIONAL HIRINGS BY PUBLIC AGENCIES POSSIBLY

PREFERABLE TO EXPANDING PUBLIC INVESTMENT-TYPE OUTLAYS BECAUSE OF THE FORMER'S MORE IMMEDIATE IMPACT ON THE LABOR MARKET.

3. TAX REVENUE ESTIMATES UPPED DESPITE

LOWERED GNP GROWTH ASSUMPTIONS

THE MAY 1977 OFFICIAL TOTAL PUBLIC SECTOR TAX REVENUE ESTIMATES FOR THIS YEAR, WHICH HAVE BEEN INCORPORATED IN THE APPROVED 1977 BUDGETS, HAVE BEEN REVISED UPWARD BY DM 1.9 BILLION, WITH DM 0.5 BILLION OF THE ADDITIONAL REVENUES FALLING TO THE FEDERAL GOVERNMENT. ASSUMING NO CHANGE IN EXISTING TAX RULES, PROBABLE 1977 FEDERAL, STATE AND MUNICIPAL TAX REVENUES ARE NOW PLACED AT DM 299.8 BILLION, UP 11.8 PERCENT OVER 1976 RESULTS. THE UPWARD REVISION REFLECTS ANTICIPATION OF HIGHER THAN PREVIOUSLY-ESTIMATED RECEIPTS FROM CORPORATION, ASSESSED INCOME AND TRADE TAXES, OVERCOMPENSATING LOWER THAN PREVIOUSLY-ESTIMATED RECEIPTS FROM VALUE ADDED TAXES. THE HIGHER REVENUES ARE EXPECTED TO BE ACHIEVED DESPITE MORE PRONOUNCED UNEMPLOYMENT AND A SLOWER PACE OF THE ECONOMY. WHEREAS IN THE PRECEDING REVENUE FORECASTING EXERCISE IN MAY NOMINAL GNP GROWTH IN 1977

WAS STILL ASSUMED TO COME TO 8.4 PERCENT, THE MOST RECENT ESTIMATE IS BASED ON 7.9 PERCENT GROWTH. RELEASED TOGETHER WITH THE REVISED 1977 REVENUE ESTIMATES WERE PRELIMINARY ESTIMATES FOR SUBSEQUENT YEARS, FORECASTING REVENUE GROWTH BY 8.4 PERCENT IN 1978, 8.2 PERCENT IN 1979, 8.6 PERCENT IN 1980 AND 8.4 PERCENT IN 1981, ASSUMING NOMINAL GNP GROWTH BY 8.2 PERCENT NEXT YEAR UNCLASSIFIED

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AND ABOUT 7.8 PERCENT ANNUALLY AS OF 1979. (COMMENT: EVEN THE REDUCED REAL GNP GROWTH ESTIMATE IMPLIED FOR 1977 STILL SEEMS A VERY OPTIMISTIC ONE).

4. FOREIGN EXCHANGE MARKET:

FOLLOWING A PERIOD OF WEAKNESS EARLY IN THE REPORTING PERIOD, THE DOLLAR REBOUNDED SHARPLY ON TUESDAY, AUGUST 30, MORE THAN RECOVERING EARLIER LOSSES.

GERMAN REACTIONS TO SWEDEN LEAVING THE SNAKE AND TO THE DEVALUATION OF THE NORWEGIAN AND DANISH CURRENCIES HAVE BEEN RELATIVELY LOW KEY. THE POSSIBLE EFFECTS, ESPECIALLY WITH REGARD TO FRG TRADE WITH THE SCANDINAVIAN COUNTRIES, HAVE BEEN DOWNPLAYED BOTH IN OFFICIAL CIRCLES AND IN THE PRESS. FINANCE MINISTER APEL EMPHASIZED THAT EVEN EXCEPTING SWEDEN FRG EXPORTS TO SNAKE CURRENCY COUNTRIES ACCOUNT FOR ALMOST 25 PERCENT OF TOTAL FRG EXPORTS. GENERALLY THE CHANGES ARE BEING VIEWED AS

NECESSARY IN LIGHT OF THE DISPARITY IN RELATIVE ECONOMIC
PERFORMANCES OF LATE AND, ACCORDING TO PRESS EDITORIALS,
REFLECT THE CONTINUING NEED TO HARMONIZE ECONOMIC POLICY
AMONG SNAKE CURRENCY BLOC COUNTRIES.

FOR THE PERIOD UNDER REVIEW, FRANKFURT SPOT AND FORWARD

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DOLLAR RATES DEVELOPED AS FOLLOWS:

	FORWARD DOLLARS				
	SPOT DOLLARS (IN PCT. PER ANNUM)				
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
AUG 23	2.3175	2.3228	2.3195	-2.3	-2.6
24	2.3135	2.3121	2.3055	-1.9	-2.4
25	2.3100	2.3108	2.3210	-2.2	-2.5
26	2.3195	2.3152	2.3145	-2.5	-2.3
29	2.3085	2.3148	2.3270	-2.5	-2.4
30	2.3245	2.3275	N.A.	N.A.	N.A.

5. INTEREST RATE REDUCTION:

EFFECTIVE SEPTEMBER 1, THE FEDERAL GOVERNMENT WILL REDUCE
YIELDS ON FEDERAL SAVINGS BONDS. WHEN HELD TO
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MATURITY, THE AVERAGE YIELD OF NEWLY-ISSUED 6 YEAR
BONDS WILL BE 5.50 PERCENT (ANNUAL INTEREST PAYMENTS)
AND 5.75 PERCENT FOR 7 YEAR BONDS (ACCUMULATED
INTEREST). EFFECTIVE AUGUST 25, THE SALE OF BONDS
CARRYING HIGHER YIELDS (5.98 PERCENT AND 6.24 PERCENT,
RESPECTIVELY) WAS DISCONTINUED.

EFFECTIVE AUGUST 29, 1977, THE BUNDESBANK ALSO REDUCED
DISCOUNT RATES ON SO-CALLED FINANZIERUNGSSCHAETZE WHICH
IS PAPER PURCHASED BY INDIVIDUALS AND FIRMS MAINLY TO
COVER ANTICIPATED TAX PAYMENTS. NEW RATES FOR BOTH
TYPES OF PAPER AND, FOR COMPARISON, PREVIOUS RATES ARE
AS FOLLOWS:

	MATURITY (YEARS)	
	1	2
NEW NOMINAL RATE	3.85	4.40
YIELD TO MATURITY	4.00	4.71
PREVIOUS NOMINAL RATE	4.00	4.75
YIELD TO MATURITY	4.17	5.12

6. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD AUGUST 16-23, THE BUNDESBANK'S NET
FOREIGN POSITION DECLINED BY DM 0.6 BILLION TO DM 86.3
BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 180
MILLION AND SDR HOLDINGS BY DM 17 MILLION. GERMANY'S
IMF GOLD TRANCHE POSITION INCREASED BY DM 38 MILLION
AND FOREIGN LIABILITIES BY ABOUT DM 440 MILLION. THUS,
DURING THE PERIOD AUGUST 1-23 THE BUNDESBANK'S MONETARY
RESERVES DECLINED BY DM 0.7 BILLION FOLLOWING AN INFLOW
OF DM 2.0 BILLION IN JULY.

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7. BANK LIQUIDITY:

DURING THE PERIOD AUGUST 16-23, BANK LIQUIDITY DECLINED
SHARPLY BY DM 7.7 BILLION. THE BASIC FACTORS REDUCING
LIQUIDITY WERE PAYMENTS FOR THE MINOR AUGUST TAX DATE
AND, PROBABLY, BORROWINGS BY THE FEDERAL AND THE STATE
GOVERNMENTS RESULTING IN AN INCREASE IN OFFICIAL NET

ASSETS HELD AT THE BUNDESBANK OF DM 6.4 BILLION. OTHER FACTORS REDUCING LIQUIDITY WERE THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES AND A SUBSTANTIAL DM 3.1 BILLION INCREASE IN THE BANKS'HOLDINGS OF RESERVES AT THE BUNDESBANK. HOWEVER, DURING THE PERIOD AUGUST 1-23 THE BANKS' RESERVE HOLDINGS, ON AVERAGE PER DAY, AMOUNTED ONLY TO DM 45.7 BILLION WHICH IS BELOW ANTICIPATED AUGUST RESERVE REQUIREMENTS OF DM 46.3 BILLION. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 0.5 BILLION. LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 2.6 BILLION) AND DM 0.3 BILLION OF RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK.

THE BANKS FINANCED THE LIQUIDITY DECLINE BY INCREASING LOMBARD BORROWINGS BY DM 6.7 BILLION TO DM 8.8 BILLION AND SPECIAL REDISCOUNT BORROWINGS BY DM 1.5 BILLION TO DM 7.0 BILLION. AT THE SAME TIME, PROBABLY IN ANTICIPATION OF A REDISCOUNT RATE REDUCTION TO BE DECIDED BY THE CENTRAL BANK COUNCIL ON AUGUST 25, THEY REDUCED NORMAL REDISCOUNT BORROWINGS BY DM 0.5 BILLION TO DM 14.4 BILLION. THUS, ON AUGUST 23, THE BANKS' CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 30.1 BILLION AS COMPARED WITH DM 22.4 BILLION ON AUGUST 15.

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8. \$200 MILLION CREDIT FOR AUSTRALIA:

THE GOVERNMENT OF AUSTRALIA IS CURRENTLY NEGOTIATING A \$200 MILLION LOAN WITH THE DEUTSCHE BANK AS LEADER OF AN INTERNATIONAL BANKING CONSORTIUM. THE LOAN WILL BE MADE IN TWO TRANCHES; \$100 MILLION WILL BE OFFERED AT AN INTEREST RATE OF 7.5 PERCENT AND A MATURITY OF 7 YEARS AND ANOTHER \$100 MILLION AT A COUPON OF 8 1/4 PERCENT AND A 15 YEAR MATURITY. THE SECOND TRANCHE WILL BE REPAYED AFTER A 5 YEAR GRACE PERIOD EITHER IN 10 ANNUAL INSTALLMENTS OR BY PURCHASES ON THE BOND MARKET.

9. MONEY MARKET:

DURING THE PERIOD UNDER REVIEW FRANKFURT INTERBANK MONEY MARKET RATES DEVELOPED AS FOLLOWS:
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	CALL MONEY	ONE-MONTH	THREE-MONTH
AUGUST 23	4.0-4.20	4.10	4.15
24	4.0-4.20	4.10	4.15
25	4.0-4.1	4.10	4.10
26	4.0-4.L	4.05	4.05
29	4.0-4.1	4.10	4.10

10. BOND MARKET:

ON THE MARKET FOR OUTSTANDING DOMESTIC BONDS PRICES FOR BONDS WITH LONGER MATURITIES INCREASED SLIGHTLY. ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF DOMESTIC BONDS, BROKEN DOWN BY REMAINING MATURITY, ARE AS FOLLOWS:

REMAINING MATURITY

(YEARS)	1	3	5	7	9	10
AUGUST 26	4.35	5.00	5.50	5.85	6.20	6.30
AUGUST 19	4.35	5.00	5.55	5.90	6.25	6.35

11. FOREIGN DM BONDS:

THE DM 150 MILLION LOAN OF THE PETROLEOS MEXICANOS WILL BE OFFERED AT A COUPON OF 7 PERCENT, AN ISSUE PRICE OF 100 AND A MATURITY OF 7 YEARS. THE JAPANESE JUJO PAPER COMPANY WILL OFFER DM 60 MILLION OF CONVERTIBLE BONDS (COUPON 5 3/4 PERCENT, MATURITY 10 YEARS, FIRST CONVERSION DATE NOVEMBER 1, 1977). THE DM 100 MILLION PRIVATE PLACEMENT OF THE GOVERNMENT OF AUSTRIA (SEE BONN 13758) WAS OFFERED AT A COUPON OF 6 PERCENT, AN ISSUE PRICE

OF 100 AND A MATURITY OF 10 YEARS. IN THE REMAINDER
OF AUGUST OR IN EARLY SEPTEMBER THE AUSTRIAN
GIROZENTRALE, VIENNA, WILL OFFER BONDS OF DM 100 MILLION
CONDITIONS WILL BE A 5 1/2 - 5 3/4 PERCENT COUPON AND A
RELATIVELY SHORT MATURITY.

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FOR THE MONTH OF SEPTEMBER NEW ISSUES OF FOREIGN
DM BONDS OF ABOUT DM 900 MILLION ARE EXPECTED
INCLUDING DM 100 MILLION FOR ARGENTINE AND DM 150 MILLION
FOR THE BRAZILIAN FIRM PETROBRAS.

13. ECONOMIC INDICATORS PUBLISHED THIS WEEK:
ACCORDING TO THE LATEST BUSINESS SURVEY DATA OF THE
IFO ECONOMIC RESEARCH INSTITUTE, THE TREND TOWARD IN-
CREASING BUSINESS PESSIMISM CONTINUED THROUGH JULY.
THE MARGIN OF RESPONDENTS WHO CONSIDERED THE CURRENT
SITUATION AS POOR OVER THOSE WHO CHARACTERIZED IT AS
GOOD, WHICH HAD INCREASED FROM 10 PERCENT IN MARCH
TO 20 PERCENT BY JUNE, CAME TO 23 PERCENT IN JULY. AT
THE SAME TIME, THE NUMBER OF PRODUCERS EXPECTING A
PICK-UP OF BUSINESS DURING THE NEXT SIX MONTHS CON-
TINUED TO BE EXCEEDED BY PESSIMISTIC RESPONDENTS;
HAVING ADVANCED FROM 10 PERCENT IN MARCH TO 14 PERCENT
BY JUNE THE NEGATIVE MARGIN INCHED UP TO 15 PERCENT IN
JULY.

SEASONALLY ADJUSTED BUNDESBANK DATA
VOLUME OF NEW ORDERS (1970 EQUALS 100)
DOMESTIC FOREIGN TOTAL

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JANUARY	100	131	107
FEBRUARY	99	136	107
MARCH	102	149	113
APRIL	100	144	111
MAY	98	146	110
JUNE	99	137	108

DOMESTIC ORDERS FOR:

INTERMEDIATE CAPITAL CONSUMER
PRODUCER GOODS GOODS GOODS

JANUARY	99	101	101
FEBRUARY	98	99	100

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MARCH	103	101	98
APRIL	102	97	101
MAY	99	96	101
JUNE	99	96	103

JUNE ORDER DEVELOPMENTS IN TERMS OF VALUE WERE REPORTED
IN BONN 12847.

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Message Attributes

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